

REPORT OF
FINANCIAL EXAMINATION

HealthLink HMO, Inc.



AS OF
DECEMBER 31, 2004

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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September 8, 2005
St. Louis, Missouri

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Financial Services
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

HealthLink HMO, Inc.

hereinafter referred to as such or as "HealthLink HMO" or as the "Company." The Company's statutory home office is located at 12443 Olive Boulevard, St. Louis, Missouri, telephone number (877) 864-2273. This examination began on July 5, 2005 and concluded on September 8, 2005.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2001, by examiners from the state of Missouri representing the Midwestern Zone

of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2004.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

Comments - Previous Examination

Comment: History (Corporate Records)

The prior examination report noted that HealthLink Inc., the Company's sole shareholder continued to elect four members to the Board of Directors after the October 25, 1999, amendment to the Articles of Incorporation, which set the number of members at six. It was recommended that the Company ensure the Articles of Incorporation, Bylaws and actual number of members of the Board of Directors all agree.

Company Response:

“HealthLink HMO Inc.’s amended Articles of Incorporation read, ‘The Board of Directors shall consist of six persons. Thereafter, the number of directors of the Corporation shall be fixed by, or in the manner provided in, the Bylaws of the corporation and any change in the number of directors shall be reported to the Secretary of State within thirty calendar days of such change.’ The Bylaws state that the Board of Directors shall consist of three to six persons, therefore, the bylaws were fixed at four persons on May 22, 2000.”

Current Findings:

The number of members of the Board of Directors serving at December 31, 2004, is in compliance with the number prescribed in the Company’s governing documents.

Comment: Affiliated Transactions

The prior examination report recommended that the Company file the Price and Ship HMO Product Agreement dated November 21, 1997, with the Missouri Department of Insurance and ensure that this agreement is included in subsequent Holding Company Registration Statement filings.

Company Response:

“HealthLink HMO, Inc. respectfully submits that the Price and Ship program (i.e., HealthLink Open Access) is not an HMO product. HealthLink HMO does not underwrite this program. This program is offered to self-funded employers and in the future may be offered to certain contracted carriers as a network rental arrangement to access HealthLink’s networks. Therefore, there is no requirement on behalf of HealthLink, Inc. or HealthLink HMO, Inc. to file this product offering with the Missouri Department of Insurance. Health insurance carriers who

may access this network arrangement in the future would file plan documents with the Missouri Department of Insurance for approval to offer such product.”

Current Findings:

The prior examination was referring to the service arrangement between HealthLink HMO, Inc. and HealthLink, Inc., not the product offering itself. Under the service arrangement, HealthLink, Inc. provides claims pricing and other services along with access to its PPO network in relation to the HMO “Price and Ship” product offerings. This arrangement was documented and agreed to in a 1997 intracompany memo, due to the companies’ Administrative Services Agreement not addressing these services.

These services are currently covered under the Master Service Agreement and Attachment WLPRT-1 with Wellpoint, Inc. and subsidiaries or affiliates, which was submitted to and not disapproved by the Missouri Department of Insurance in 2003.

HISTORY

General

HealthLink HMO, Inc., was incorporated in Missouri on July 29, 1992. It received its Certificate of Authority to operate as a Health Maintenance Organization (HMO) under Sections 354.400 to 354.550 RSMo (Health maintenance organizations) on January 14, 1993. The Company was granted a Certificate of Authority in Illinois on December 21, 1994, and in Arkansas effective December 10, 1998. HealthLink HMO operates as an Individual Practice Association form of health plan and is licensed to do business in Missouri, Illinois and Arkansas.

Before May 31, 1996, the Company was owned equally by TriLink Healthcare, Inc., (formerly known as Integrated HealthSystems, Inc., a wholly owned subsidiary of Blue Cross Blue Shield of Kansas City) and HealthLink, Inc., (a wholly owned subsidiary of RightCHOICE Managed Care, Inc., a subsidiary of Blue Cross Blue Shield of Missouri). The Board of Directors was evenly split between representatives of RightCHOICE Managed Care, Inc., and Blue Cross Blue Shield of Kansas City (BCBSKC).

On May 31, 1996, HealthLink, Inc., purchased the remaining fifty percent of the Company from TriLink Healthcare, Inc., making the Company a wholly owned subsidiary of HealthLink, Inc. The Board of Directors no longer includes any members of BCBSKC.

Capital Stock

The Company has the authority to issue 300 shares of Common Stock with a par value of \$100 per share. Ten shares were issued and outstanding at December 31, 2004, with HealthLink, Inc., owning all ten shares.

Gross paid in and contributed surplus totalled \$2,499,000 at December 31, 2004. No additions or withdrawals to paid in and contributed surplus were made during the period under examination..

Dividends

The Company has declared and paid dividends to shareholders during the current examination period as follows:

	<u>Cash</u>	<u>Approved by MDI</u>
2004	\$6,500,000	November 3, 2004
2003	<u>4,000,000</u>	Not Required
Total	<u>\$10,500,000</u>	

Surplus Debentures

No surplus debentures were outstanding as of December 31, 2004. The Company issued two surplus notes in 1993 totaling \$1,400,000 to its parent company (Blue Cross and Blue Shield of Kansas City). The Company repaid \$400,000 in 1999 and the remaining \$1,000,000 in 2002, after obtaining approval from the Missouri Department of Insurance.

Management

The Company's Bylaws prescribe that the Company be managed by a board of directors, consisting of three to six persons. The board of directors resolved to set the number of directors at three on May 22, 2002. Directors serving at December 31, 2004 (according to the Company's 2004 Annual Statement) were as follows.

<u>Name</u>	<u>Location</u>	<u>Business Affiliation</u>
David T. Ott	St. Louis, MO	President and Chief Executive Officer, HealthLink Inc.
David C. Colby	Indianapolis, IN	Executive Vice President and Chief Financial Officer, WellPoint, Inc.
David R. Frick	Indianapolis, IN	Executive Vice President & Chief Legal & Administrative Officer, WellPoint, Inc.

Officers appointed and serving as of December 31, 2004, (according to the Company's 2004 Annual Statement) were as follows:

<u>Name</u>	<u>Office</u>
David T. Ott	President
David C. Colby	Chief Financial Officer
Nancy L. Purcell	Secretary
Robert D. Kretschmer	Treasurer
Jay R. Naftzger	Assistant Secretary
Michael C. Wyatt	Assistant Secretary

Conflict of Interest

The Company has a corporate policy requiring conflict of interest disclosure statements to be executed annually by all board members and officers. A review of the conflict of interest disclosure statements indicated no material conflicts for the period under examination.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. No amendments were made to the Articles or the Bylaws since the prior examination, however, the board of directors resolved at its February 2003 meeting to amend the Bylaws to change their Annual Board of Directors Meeting from May to December. The Company should update its Bylaws to reflect this amendment.

The minutes of the meetings of the shareholder and board of directors were reviewed for the period under examination. The minutes provided by the Company did not sufficiently document significant corporate events. For example, the shareholder minutes do not document the election of any HealthLink HMO directors subsequent to May 2002, even though the members of the board have changed since that time. The board of directors meeting minutes do not document the election of officers subsequent to May 2002. The officers have also changed since this time. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents.

Acquisitions, Mergers and Major Corporate Events

HealthLink HMO, Inc. was not a direct party in any acquisition, merger or major corporate events during the current examination period. The Company's ultimate parent, however, was involved in multiple significant transactions as described in the Affiliated Companies section below.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions), with WellPoint, Inc. designated as the ultimate controlling entity in the insurance holding company system. WellPoint, Inc. is a publicly held corporation headquartered in Indianapolis, Indiana. The common stock of WellPoint, Inc. is traded on the New York stock exchange under the symbol WLP. No one party owns 10% or more of the voting securities of WellPoint, Inc.

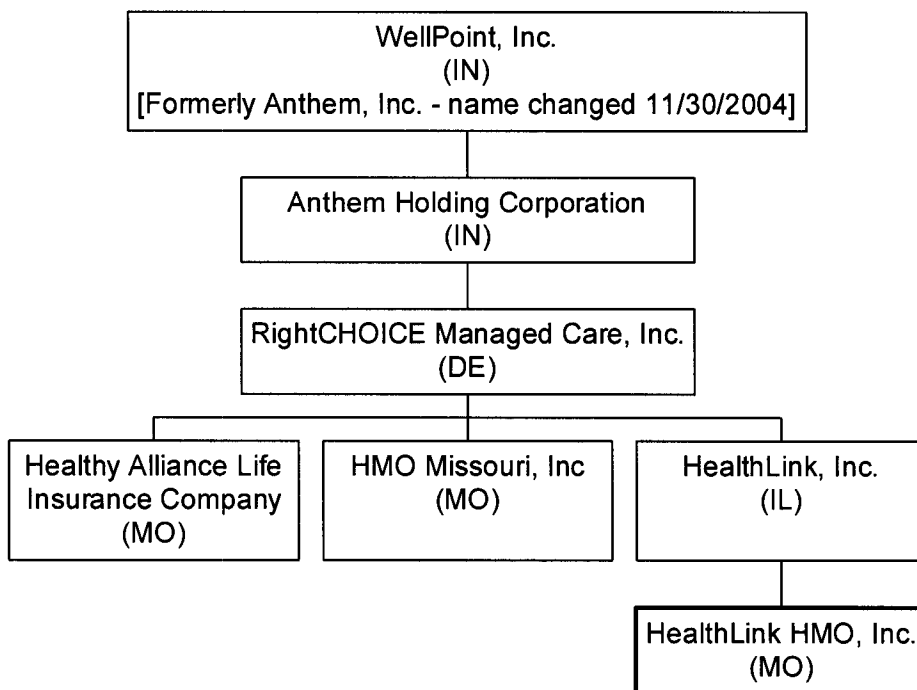
WellPoint, Inc. was formed on November 30, 2004, by a merger between WellPoint Health Networks Inc. and Anthem, Inc. The merger (a \$16.5 billion merger) created the nation's largest health insurer. WellPoint Inc. serves approximately 28 million medical members through its Blue Cross or Blue Cross and Blue Shield operations in 13 states, and its non-Blue branded operations in other states. WellPoint has more than 38,000 employees nationwide.

The Company's previous ultimate controlling entity was RightCHOICE Managed Care, Inc. (RightCHOICE), until January 2002, when RightCHOICE completed a merger with WellPoint Health Networks Inc. (WHN) and RWP Acquisition Corporation (a wholly owned subsidiary of WHN). According to the terms of the merger, RightCHOICE and RWP

Acquisition Corporation were merged with RightCHOICE as the surviving entity. The Missouri Department of Insurance approved the acquisition by WellPoint Health Networks, Inc. on January 16, 2002, making WellPoint Health Networks, Inc. the Company's ultimate controlling entity.

Organizational Chart

The following is a portion of the entire WellPoint, Inc. organizational chart. Only companies directly related to HealthLink HMO, Inc., other Missouri domestic insurers, and companies with which HealthLink HMO has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent unless otherwise noted.



Affiliated Transactions

HealthLink HMO, Inc. is party to the following agreements with affiliates. All agreements noted below, that originated during or subsequently to the examination period, were reviewed and approved by the Missouri Department of Insurance.

1. Type: *Master Service Agreement and Attachment WLPRT-1*
 Parties: WellPoint, Inc. and subsidiaries or affiliates
 Effective: Effective January 1, 2003; Non-disapproved by MDI May 28, 2003
 Terms: WellPoint, Inc. and its subsidiaries and affiliates participate as “providers” and “receivers”, each providing or receiving administrative and other services to/from each other. In addition to administrative services, the agreement also includes utilization management and review services, third party administrator services and network access/management services. Affiliates reimburses companies providing services under this agreement for direct and allocated costs incurred through intercompany transactions with Wellpoint, Inc.

2. Type: *Tax Allocation Agreement*
 Parties: Eligible WellPoint, Inc. subsidiaries
 Effective: Effective January 31, 2002; Non-disapproved by MDI November 5, 2002
 Terms: The RightChoice Managed Care, Inc. subsidiaries participate in the filing of a consolidated federal income tax return with various other WellPoint, Inc. subsidiaries. The consolidated tax liability allocated to the companies is limited to their separate tax return tax liability. Companies are reimbursed for any deductions, net operating losses and credit used by the consolidated group. Estimated tax payments and settlements are made through the intercompany accounts of subsidiaries.

FIDELITY BOND & OTHER INSURANCE

HealthLink HMO is a named insured on a fidelity bond providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$20,000,000 and a deductible of \$250,000. The fidelity bond meets the suggested minimum coverage recommended by the NAIC, and the requirements of Section 354.425 RSMo (Surety bond requirements). The deductible appears commensurate with the Company's financial position.

The Company is also a named insured on policies taken out by WellPoint, Inc. for the following types of coverage: general liability, workers' compensation, professional liability, commercial property, commercial automobile, errors and omissions, terrorism, umbrella, and directors and officers liability. Wellpoint, Inc. appears to provide adequate coverage for HealthLink HMO, Inc.'s exposed risk.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All personnel services are provided by subsidiaries of WellPoint, Inc. through the Master Service Agreement. WellPoint, Inc. provides its employees with benefits such as vacation and insurance products comparable to the benefits provided by other companies in the insurance industry.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo "Trust deposits."

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	\$432,000	\$429,570	\$429,766

Deposits with Other States

The Company has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2004, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Illinois	FHLB Bond	\$320,000	\$318,589	\$318,963
Arkansas	FHLB Bond	<u>440,000</u>	<u>435,309</u>	<u>438,575</u>
TOTAL		<u>\$760,000</u>	<u>\$753,898</u>	<u>\$757,538</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

General

HealthLink HMO, Inc., is an Individual Practice Association Model health maintenance organization licensed with the Missouri Department of Insurance under Chapter 354 RSMo (Health service corporations, health maintenance organizations and prepaid dental plans). The

Company also has an active license to operate as a third party administrator in the state of Missouri. The Company's marketing staff markets its network rental and administrative services directly to self-insured groups and to national insurance carriers (Payors). The Payors are responsible for marketing HealthLink HMO, Inc.'s products to their existing and prospective clients, and for assuming all underwriting risk. The Company's services are offered in 61 counties in Missouri, 51 counties in Illinois and 15 counties in Arkansas to approximately 280,000 members, which includes HealthLink, Inc, Open Access members for whom the Company provides claims adjudication and payment services and those members for whom the Company only provides claims repricing services. The HealthLink HMO network has contractual arrangements with approximately 13,170 physicians.

Marketing

The Company services the following products:

➤ *HealthLink HMO Classic*

An HMO product with a gatekeeper. A gatekeeper is a primary care physician who refers the patient to a specialist if necessary. Elective treatment by out-of-network physicians and facilities are not covered. Includes full claim adjudication and payment services.

➤ *HealthLink POS Classic*

A gatekeeper model plan, which allows the members to go outside of the network with higher out-of-pocket costs. Includes full claim adjudication and payment services.

➤ *HealthLink Open Access III*

Plan participants are not required to choose a Primary Care Physician. Members may self-refer to any physician in the HMO and PPO networks in the service area. The program offers three levels of benefits. The highest is for those members who stay within the HMO network. The second, lower level of benefits is available to those who use the PPO network. The third and lowest benefits are available to those who choose out-of-network physicians and facilities. This product includes claim repricing but not claims adjudication or payment services.

Provider Contracts

HealthLink HMO, Inc., had the following provider agreements in place at December 31, 2004, which had been submitted to the Missouri Department of Insurance:

- HealthLink Participating Network Agreement
- HealthLink Participating Hospital Agreement
- HealthLink Physician Agreement
- HealthLink Provider Agreement (Individual)
- HealthLink Provider Agreement (Group)
- HealthLink Group Agreement
- HealthLink Hospital Network Agreement

Rates

The Company does not charge premiums in the traditional sense. Network access fees are charged to the direct pay groups and Payors based on provider capitation costs and Company administrative costs. The capitation costs are actuarially determined rates based on age and sex of the members. The capitation charge to the Payors and direct pay groups is an approximation of the overall capitation expense to the Company expressed on a per member per month basis. Physicians are paid according to a schedule of rates based on the age and sex of all members that have selected that physician. Capitation amounts charged to the Payors or direct pay groups is a flat per member per month rate. This rate is based on an estimate of the overall capitation expense.

Traditional premium rates include a component for the underwriting risk. Since the Payor or the Self Insured Group retains all the underwriting risk, this Company does not have that component in the rate structure.

The Company reports the capitation costs charged to direct pay groups as premium income in the financial statements. These members are also included in the Annual Statement Exhibit 1 – Enrollment By Product Type For Health Business Only. The Company reports these items in the Annual Statement as prescribed by the Missouri Department of Insurance, Division of Financial Regulation in order to be in compliance with SSAP No. 47 Uninsured Plans.

Grievance Procedures; Quality Assurance, Utilization Review and Provider Credentialing

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent Missouri Market Conduct examination primarily covered the period of January 1, 2001, through December 31, 2001, and was completed on April 7, 2003. The examination disclosed several non-compliance issues subject to penalty, none of which had a material effect on the financial condition of the Company.

REINSURANCE

Assumed

The Company did not assume any business during the examination period.

Ceded

Payor Agreements

The Company has two contracts remaining with Payors, which solicited groups and individual members and assume all underwriting risk. These agreements have several provisions, one of which is that under the agreements the Payors assume underwriting risk for the provision of all medically necessary covered services other than capitated services. The

Payor agreements were filed with the Missouri Department of Insurance. No new business is currently being written by the Payors under these contracts. There were only 97 members remaining under these contracts at December 21, 2004.

Stop-Loss Coverage

The Company's self-insured groups may require stop-loss insurance coverage to limit their overall risk on medical claims of individuals or in aggregate. The Company does not cede any coverage, as it does not retain the underwriting risk, but does monitor the claims and provide reports to the self-insured groups and their stop-loss reinsurers.

ACCOUNTS AND RECORDS

General

The Company maintains its general ledger with the Peoplesoft General Ledger software system. The general ledger is maintained at WellPoint, Inc.'s facility in California. The Company processes client access fees and claim payments using PeopleSoft software. Internally developed systems maintained on the Anita mainframe are used for policy administration and claims activity.

Annual Statement Schedule Y – Part 2

The Company failed to include approximately \$11 million of ASO revenue received from HealthLink, Inc. in the 2004 Annual Statement, Schedule Y - Part 2 (Transactions with Affiliates) and in the Form B Holding Company Registration Statement Supplement. The Company received these fees for providing certain services to clients of HealthLink, Inc. enrolled its Open Access product. In addition, the Company did not include fees paid to

HealthLink, Inc. under the Administrative Services Agreement in Schedule Y – Part 2 of the Annual Statement for the years 2002 and 2003.

The Company should report all revenues/expenditures for services provided or purchased by the insurer from other affiliates under management agreements, service contracts, etc. in Schedule Y - Part 2, Column 8 and the Form B Supplement in future filings.

Independent Auditor

The Company's financial statements were audited by the CPA firm PricewaterhouseCoopers LLP as part of the WellPoint, Inc. company-wide audit for the years ending 2000 to 2004. The available workpapers related to the last CPA audit were reviewed. Limited use of these workpapers and reports were used in the course of this examination.

Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Cynthia S. Miller, FSA, MAAA, Vice President and Corporate Actuary of WellPoint, Inc., the ultimate parent of HealthLink HMO, Inc.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ASSETS

	<u>Ledger & Non-</u> <u>Ledger Assets</u>	<u>Assets</u> <u>Non-Admitted</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$ 14,931,486		\$ 14,931,486
Cash and short-term investments	9,020,701		9,020,701
Receivable for securities	5,400		5,400
Investment income due and accrued	57,896		57,896
Premiums in course of collection	345,679	965	344,714
Net deferred tax asset	341,852		341,852
Receivable from affiliates	742,137		742,137
Health care receivable	65,051	25,194	39,857
Medical claims receivable	1,336,023	209,534	1,126,489
Provider administrative fee receivable	<u>282,082</u>	<u>282,082</u>	<u>0</u>
Total Assets	<u>\$ 27,128,307</u>	<u>\$ 517,775</u>	<u>\$ 26,610,532</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	\$ 166,919
General expenses due or accrued	155,146
Current federal income taxes payable	50,949
Amounts due to affiliates	88,697
Medical claims payable	115,301
Other payables	<u>44,505</u>
Total Liabilities	<u>\$ 621,517</u>
 Common capital stock	 \$ 1,000
Gross paid in and contributed surplus	2,499,000
Unassigned funds (surplus)	<u>23,489,015</u>
 Surplus as regards policyholders	 <u>\$ 25,989,015</u>
 Total Liabilities and Surplus	 <u>\$ 26,610,532</u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$ 4,495,069
Provider administrative fees	1,019,810
Revenue ASO business	<u>11,358,180</u>
Total Revenues	\$ 16,873,059
 Hospital/medical benefits	 \$ 1,641,049
Other professional services	691,447
Prescription drugs	<u>1,509,261</u>
Subtotal Hospital and Medical Benefits	3,841,757
Claim adjustment expenses	143,343
General administrative expenses	<u>2,904,162</u>
Total Underwriting Deductions	\$ 6,889,262
 Net Underwriting Gain or (loss)	 \$ 9,983,797
 Net investment income earned	 \$ 580,891
Net realized capital gains or (losses)	<u>-</u>
Net Investment Gains or (Losses)	\$ 580,891
 Net Income or (Loss) Before Federal Income Taxes	 \$ 10,564,688
 Federal and foreign income taxes incurred	 <u>4,497,681</u>
 Net Income (Loss)	 <u>\$ 6,067,007</u>

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31, 2003	\$ 26,133,366
Net income or (loss)	6,067,007
Change in net deferred income tax	(195,719)
Change in nonadmitted assets	484,361
Dividends to stockholders	(6,500,000)
Change in surplus as regards policyholders	<u>\$ (144,351)</u>
Surplus as regards policyholders, December 31, 2004	<u>\$ 25,989,015</u>

EXAMINATION CHANGES

None

NOTES TO FINANCIAL STATEMENTS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Corporate Records – Bylaws

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The board of directors resolved at its February 2003 meeting to amend the Bylaws to change their Annual Board of Directors Meeting from May to December. The Company should update its Bylaws to reflect this amendment.

Corporate Records – Minutes

Page 7

The minutes provided by the Company did not sufficiently document significant corporate events. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents.

Annual Statement Schedule Y – Part 2

Page 16

The Company failed to include approximately \$11 million of ASO revenue received from HealthLink, Inc. in the 2004 Annual Statement, Schedule Y - Part 2 (Transactions with Affiliates) and in the Form B Holding Company Registration Statement Supplement. The Company should report all revenues/expenditures for services provided or purchased by the

insurer from other affiliates under management agreements, service contracts, etc. in Schedule Y - Part 2, Column 8 and the Form B Supplement in future filings.

SUBSEQUENT EVENTS

In July 2005, WellPoint, Inc. and subsidiaries agreed to pay up to \$198 million to settle two nation-wide class-action lawsuits regarding alleged unfair payment practices with providers. HealthLink HMO, Inc.'s portion of this settlement is estimated to be approximately \$115,000. WellPoint, Inc. has agreed to pay \$135 million to doctors and contribute \$5 million to a nonprofit foundation aimed at improving health care for the disadvantaged. WellPoint, Inc. will also pay legal fees to be determined by the court of up to \$58 million. Disclosure regarding this litigation was included in the Company's Holding Company Registration Statements and the 2004 Annual Statement (described as *Shane v. Humana , et al*).

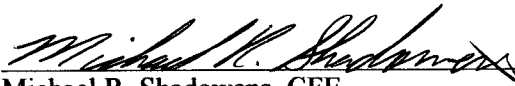
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of HealthLink HMO, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Boczkiewicz, CPA, CFE, and Arthur L. Palmer, AFE, examiners representing the Missouri Department of Insurance, participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 26 day of Sept., 2005.

My commission expires:

3/18/08

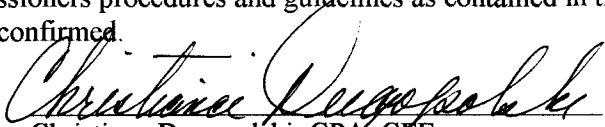

Notary Public



GINA SANSONE
NOTARY PUBLIC—STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXPIRES MAR 15, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Christiana Dugopolski, CPA, CFE
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners

HealthLink HMO, Inc.
Examination Report as of December 31, 2004
Responses to Recommendations

- 1.) Page 23 – **Corporate Records-Bylaws**— The board of directors resolved at its February, 2003 meeting to amend the Bylaws to change their Annual Board of Directors Meeting from May to December. The Company should update its Bylaws to reflect this amendment.

Response: The Company agrees with the recommendation above. The Company will be amending its Bylaws to change their Annual Board of Directors Meetings from May to December annually. In addition, any future acts resolved by the Board of Directors will be properly reflected, as necessary, in the Company's Bylaws on a timely basis

- 2.) Page 23 – **Corporate Records** — The minutes provided by the Company did not sufficiently document significant corporate events. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholders as required in the Company's own governing documents.

Response: The Company agrees with the recommendation above. The Company will ensure that documentation of the approval of the items noted in examination are approved by the board of directors / shareholders. In addition all future acts requiring board of directors / shareholders will be obtained and documented by Corporate Legal department in accordance with the Company's governing documents.

- 3.) Page 23 – **Annual Statement Schedule Y – Part 2** — The Company failed to include approximately \$11 million of ASO revenue received from HealthLink, Inc. in the 2004 Annual Statement, Schedule Y – Part 2 (Transactions with Affiliates) and in the Form B Holding Company Registration Statement Supplement. The Company should report all revenues/expenditures for services provided or purchased by the insurer from other affiliates under management agreements, service contracts, etc. in Schedule Y – Part 2, Column 8 and the Form B supplement in future filings.

Response: The Company agrees with the recommendation above. The Company has reviewed its process for compiling information to be reported on Schedule Y-Part 2 and the Form B supplement. As a result certain changes were made to the process to ensure that all transactions required to be included in these filings are made on all future filings.

HealthLink, Inc. • 12443 Olive Boulevard • St. Louis, MO 63141 • 1-800-624-2356

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